

FINANCE COMMITTEE

Fiscal Year 2007

The Finance Committee advises the Town on matters affecting Town finances and makes transfers from the Reserve Fund to cover extraordinary or unforeseen expenses. The principal focus of the Committee's work consists of adopting guidelines for managing the Town's money and recommending a comprehensive budget consistent with those guidelines to Annual Town Meeting. The Committee also makes recommendations on any articles of Annual and Special Town Meetings that have significant financial implications.

The guidelines are presented in the fall to the budget-making authorities to provide them with information on the extent of resources that are expected to be available for spending on operating and capital expenses in the next fiscal year, as well as the need to link spending limits to the need to accumulate and maintain appropriate levels of reserves in the form of Free Cash and the Stabilization Fund. The guidelines are developed from the Finance Director's projections of revenues and spending during the previous, current and next three to five fiscal years. Changes to the guidelines sometimes occur as new information about resources and needs becomes available. Such changes might be to the amount of available resources and/or to the proportion of the total going to different sections of the overall Town operating budget: municipal services, elementary schools, regional schools and library services.

Fiscal year 2008 guidelines, spending and reserves: a multi-year plan. The Committee is convinced that the Town has a compelling need to develop a multi-year plan to build reserves to a more adequate level than the 5% of operating budgets it has now. This is clearly not enough to protect Town services during the next, inevitable, economic downturn that will surely result in diminished state aid for the Town. The Town had been spending reserves to support operating budgets for several years, in declining amounts. For FY 08, there was to be no spending of reserves, followed by years of rebuilding them.

After reviewing several scenarios presented by the Finance Director, the Committee recommended that the Town follow a three-year plan that would increase reserves to 8% of operating budgets by FY 10 and also provide financial stability and predictability that is lacking when budgets have to be designed just one year at a time. The plan consisted of five elements. First was to establish spending caps. Increases would be held to 3% in FY 08 and to about 5.5% in FY 09 and FY 10. Increases at 3% for FY 08 would mean significant service reductions, because cost inflation is greater than that. Budgets in the two following years were expected to maintain services at the reduced level, or nearly so. The plan required a Proposition 2 1/2 override for FY 08 in the amount of \$2.5 million, with \$1 million of the new revenue to be set aside for use in the following two years. The other elements of the plan were aimed at increasing revenues by working to encourage the state to permit municipalities to have more varied sources of income (such as a meals tax and increased hotel tax); by seeking funds from the university and colleges to cover the cost of various Town services; and by acting to encourage appropriate development within the Town.

The alternative to adopting the plan and approving the override was to hold operating budget increases for FY 08 to 1% for municipal services, elementary schools and tax support for libraries and 2% for the regional schools assessment. In this case, service reductions would be more severe and the opportunities flowing from greater financial stability would be lost.

At the request of the Budget Coordinating Group, the Committee produced a report on Proposition 2 1/2 overrides that described what overrides are, summarized Amherst's history of override elections and described the Town's structural deficit problem.

The Select Board authorized an election for May 1, 2007, at which the voters defeated the override proposal. Town Meeting subsequently appropriated funds for FY 08 that followed the limits of the guidelines, except for the regional schools assessment. Its increase was double the amount proposed by the Finance Committee. The larger increase was mandated by the regional agreement, because the other three towns of the region had already approved a budget and assessment levels that effectively determined the amount Amherst must pay.

Town Meeting, in making its appropriations, followed the recommendation that no reserves be used to support FY 08 budgets except for the additional \$237,893 required for the regional schools. The Finance Committee plans to consider again a proposal for a multi-year financial plan, attempting to gain the full support of the elected boards and the citizens so that it can be implemented.

Fiscal year 2007 Reserve Fund transfers. The Reserve Fund is used by the Finance Committee to cover extraordinary or unforeseen expenses of the Town. An amount is appropriated at each Annual Town Meeting for this purpose. For the past few years, the appropriation has been \$100,000. The May 1, 2006 ATM reduced the amount to \$50,000 in order to balance the FY 07 budget. This year's June 6 Special Town Meeting added \$50,000 because information available at the time suggested that the Fund could not cover all needs. When the Committee met on July 11, 2007, to make the necessary transfers from the Fund, a total of \$66,314 was required, leaving \$33,686 unspent. That remainder is closed to the Undesignated Fund Balance and becomes Free Cash. The Committee made two transfers:

\$ 36,029 General Government, for a combination of Town Manager salary/moving expenses, Legal Services, health insurance mid-year increase and utilities.

30,285 Community Services, for a combination of Veterans Benefits, Veterans Agent payout at retirement, Pool utilities, Cherry Hill utilities and seasonal help and Manager payout.

Meetings. The Committee held 40 meetings during the year, 11 of them immediately prior to Town Meeting sessions and 2 of them combined meetings with the Select Board, School Committee and Jones Library Trustees.

Members of the Committee. All members served diligently and with great thoughtfulness for the full fiscal year. They are Brian Morton (Vice-Chair), Marilyn Blaustein, Paul Bobrowski, Kay Moran, Douglas Slaughter and Andrew Steinberg.

Thanks. This was a difficult year financially for the Town, and consequently the Committee required a great deal of staff support to gather information and to present it to Town Meeting. Finance Director/Treasurer John Musante, along with staff of the Finance Department, provided necessary information about the Town's financial history and current situation. His knowledge about state technical requirements, policies and politics continued to be most helpful. Maria Racca, Financial Analyst, organized information for us and also produced our reports, usually under acute deadline pressure. We rely on assistance of the Town Manager's office staff to help

organize our operation. Our review of the various parts of the Town's budget depends on the assistance of the Town Manager, School Superintendent, Library Director and members of their staffs, along with department heads and other staff responsible for municipal services. Contributions of the Select Board, School Committee and Jones Library Trustees are essential to arriving at an acceptable budget to recommend to Town Meeting. We thank them all for their generous assistance.

We are committed to organizing and presenting financial information to Town Meeting members in order to assist them in carrying out their duty to determine spending policies for the Town. We appreciate the comments and guidance they give us, both as individual members and as a group, the appropriating authority of the Town.

Alice Carlozzi, Chair